AR15

The White Pass and Yukon Corporation Limited / annual report 1968



THE WHITE PASS AND YUKON CORPORATION LIMITED

HEAD OFFICE: 510 W. HASTINGS ST., VANCOUVER 2, B.C.

DIRECTORS

RALPH D. BAKER, Vancouver, B.C.

FRANK H. BROWN, C.B.E., Vancouver, B.C.

MICHAEL H. CRICHTON, O.B.E., London, England

JOHN C. DALE, Edmonton, Alberta

NORMAN F. W. H. D'ARCY, London, England

HERBERT L. FAULKNER, Oakland, Cal.

ALBERT P. FRIESEN, Vancouver, B.C.

ROBERT C. HEIM, New York, N.Y.

GERALD H. D. HOBBS, Vancouver, B.C.

WILLIAMS MANSON, Vancouver, B.C.

CLIFFORD J. ROGERS, Seattle, Wash.

OFFICERS

FRANK H. BROWN, C.B.E., President

NORMAN F. W. H. D'ARCY, Vice-President

ALBERT P. FRIESEN, Vice-President and Managing Director

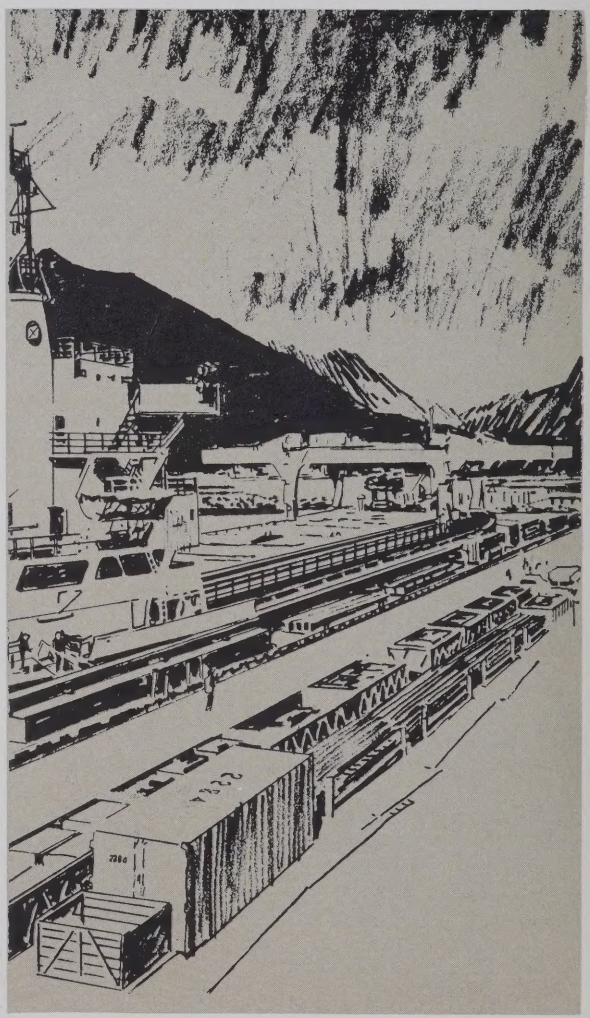
FREDERICK D. SMITH, C.A., Treasurer

JOHN S. BUTTERFIELD, Secretary

REGISTRAR AND TRANSFER AGENT

(Common and Preferred Shares)

THE ROYAL TRUST COMPANY
Vancouver, Calgary, Toronto and Montreal



COVER PICTURE

The 6000-ton White Pass tanker-container ship m.v. FRANK H. BROWN leaving Vancouver on its regular freight run to Skagway, Alaska. The m.v. KLONDIKE, a duplicate of the BROWN, is nearing completion in Montreal and will be placed in service during July, 1969.

AR15

The White Pass and Yukon Corporation Limited

REPORT TO THE SHAREHOLDERS

FOR THE SIX MONTHS ENDED JUNE 30, 1968



PRINTED IN CANADA

THE WHITE PASS AND YUKON CORPORATION LIMITED

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Interim Report to the Shareholders

for the Six Months ended June 30th, 1968

We operated in the first half of this year under favourable conditions and at a high volume. The same conditions should prevail in the latter half of the year. However, we shall need to plough back the larger part of the earnings into the new facilities being built at Skagway and into the rest of the equipment and improvements necessary to fulfilment of our contract with Anvil Mining Corporation.

It will be observed that income tax payments were considerably higher than was the case last year. This was in part a reflection of the increased earnings but was also in considerable measure due to the surtaxes arising in both Canada and the United States.

The item "interest income" is a reflection of the purely temporary investment of funds raised through our rights issue early in the year. It is of course a non-recurring item—the funds will go quickly into the capital expenditures for which they were raised.

Good progress is being made in the dredging and other work for the construction of the new ship basin at Skagway. The engineering has been done on other major parts of the undertakings, some tenders have been called and we expect to be in a position to award contracts in the immediate future.

Shareholders will have seen the announcement that we have placed an order for the construction of a sister ship of the "Frank H. Brown". This vessel will not at first carry full loads such as we have been moving with the "Brown" but the extra capacity which the new ship will provide will ensure our customers that their needs will be met. Both vessels should soon be carrying increased volumes of freight.

Arctic Mining and Exploration Limited is now in operation at its 300 ton a day mill near Carcross and the Mount Nansen property should be in operation this fall. While these are relatively small mines and do not provide large volumes of freight, they are important in terms of the general growth of Yukon.

Frank H. Brown

Vancouver, B.C.
July 15, 1968

President

THE WHITE PASS AND YUKON CORPORATION LIMITED AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED EARNINGS

for the six months ended June 30, 1968

(with comparative figures for 1967)

	1968	1967
Gross earnings from operations	$9,141,907	$7,352,616
Deduct:		
Cost of sales and operating expenses other than depreciation	6,962,307	5,786,152
Depreciation	582,986	522,069
	7,545,293	6,308,221
Net earnings from operations before the following items	1,596,614	1,044,395
Deduct:		
Interest on long term debt and amortization of discount and issue expense	136,270	141,269
Interest income	(147,481)	(61,866)
Taxes on income	810,000	452,000
	798,789	531,403
Net earnings before capital items	797,825	512,992
Capital gains — net	65,187	9,092
Profit on 4½% First Debenture Stock 1961/76 purchased and transferred to sinking fund	10,369	10,911
Net earnings for the six months	$ 873,381	$ 532,995

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the six months ended June 30, 1968

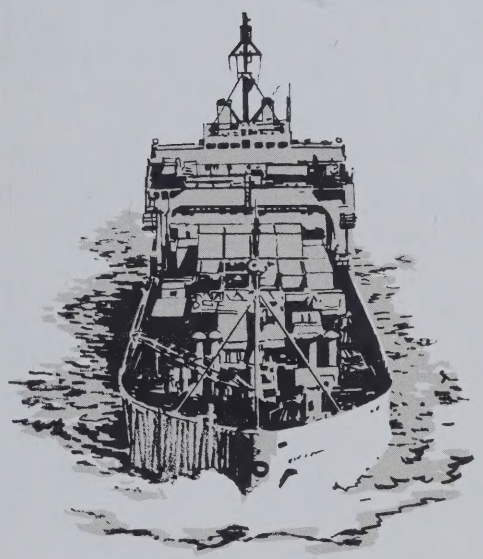
(with comparative figures for 1967)

	1968	1967
Source of funds:		
Net earnings before capital items	$ 797,825	$ 512,992
Add non-cash items —		
Depreciation	582,986	522,069
Amortization of discount and issue expense	6,157	6,440
Deferred income taxes	31,400	(35,600)
Total funds provided from operations	1,418,368	1,005,901
Proceeds from disposal of fixed assets	103,812	18,200
Proceeds from issue of capital stock	2,670,241	7,776
	4,192,421	1,031,877
Application of funds:		
Additions to fixed assets	1,006,213	415,358
Reduction of long term debt	116,676	144,257
Dividend paid	235,940	151,313
Other	84,817	99,819
	1,443,646	810,747
Increase in working capital	2,748,775	221,130
Working capital at beginning of period	3,634,946	2,698,371
Working capital at end of period	$6,383,721	$2,919,501

COVEI

The 6000-ton White Pass tanker-container ship m.v. FRANK H. BROWN leaving Vancouver on its regular freight run to Skagway, Alaska. The m.v. KLONDIKE, a duplicate of the BROWN, is nearing completion in Montreal and will be placed in service during July, 1969.

PRESIDENT'S REPORT



TO THE SHAREHOLDERS:

We are happy to be able to report that 1968 was another good year for your Company, with earnings from operations at $1,742,538. As you will see, the statement of earnings is a rather complicated affair due to the inclusion of some large items of an extraordinary and/or non-recurring character. The largest of these is the bringing into retained earnings of $1,885,000 of the previously established reserve for future taxes, on the footing that it is no longer needed. Note No. 4 appended to the statement explains the item.

A second non-recurring item for $344,692 is the out-of-pocket costs of our recent common stock rights and preferred stock issues.

On the plus side is the interest earned on part of the proceeds of the two issues pending their use in our capital expenditure programme. This item, amounting to $343,397, of course is subject to income tax of approximately 50% so that its net effect in augmenting earnings is $171,397.

Taking out these extraordinary items and some small capital gains the actual operating profits amounted to $1,742,538 as above stated. This and the special items above referred to bring the net increase in retained earnings to $3,541,761.

The net operating earnings of $1,742,538 represent an increase of 34.7% over the corresponding figure for the previous year and work out to 8.8% on the sales or gross revenue, (or 8.3% on the average capital employed), a reasonable figure considering the diversity, difficulty and extent of our operations. The aforementioned 8.8% of gross revenues compares with 8.0% for the previous year and an average of 3.5% for the 14 years prior to the bringing in of our modernized container system. It may reasonably be said that it was the introduction of the new ship and large containers which lifted White Pass from the doldrums as regards ratio of net profit to sales to a ratio more in keeping with the ratios which prevail in the case of numerous successful Canadian companies.

Total tonnage handled by your Company increased by approximately 32% over the previous year.

BALANCE SHEET

It will be observed that the working capital has again risen. It was $5,228,000 at the end of 1968, as compared with $3,635,000 at the end of the previous year. This increase is of purely temporary character as the government bonds and short term deposits with banks will be used up in financing our new capital programme. The six year term bank loan for $6,000,000 for which we made arrangements earlier will be availed of between now and the end of the year, also to finance the capital development programme. This loan is payable out of earnings in semi-annual installments of $500,000 each, commencing on 1st July 1970.

It is of interest that the book value of all the assets at $38,382,000 is $12,464,000 higher than at the end of the previous year, of which approximately $5,200,000 was financed by our new preferred stock issue and approximately $2,600,000 net came from common shares issued at the beginning of 1968.

CAPITAL DEVELOPMENTS

Although the volume of freight and passenger traffic made for the busiest year in the Company's history, the really important work of the year, which laid heavy burdens upon the senior officials, was the preparation of plans, specifications and contracts for the extensions and additions to the physical properties needed to handle the increased volumes of products from the mines. Contracts have been let for nearly all of the work and considerable progress has been made in carrying it out. The ship basin at Skagway has been completed and a good start has been made on the building of the wharves, storage sheds, shiploading equipment and so on. It may be noted here that the Skagway facilities are designed to accommodate ships of 35,000 tons, loading at the rate of 1,500 tons per hour. Thus eleven ships a year loaded to capacity could move, in less than 30 days, the whole of the Anvil volume of 370,000 tons per annum. In other words, the annual capacity of the wharf is 10 to 12 times the expected output of the





Anvil mine, or, in round terms, about four million tons a year. Engineering studies indicate that our harbour at Skagway is capable of being developed to take, at one time, a ship with a capacity of 100,000 tons, a 35,000 ton ship and a general cargo ship of 8,000/10,000 tons deadweight. Therefore, at Skagway, a capability can be developed readily to handle 15 million tons of cargo which surely should be enough to serve the requirements of the Yukon for many years to come.

Since the end of the year, one additional commitment has been made for an item of capital expenditures related to our expansion programme. I refer to an undertaking to upgrade the railroad bed by placing approximately 10 inches of rock ballast from one end of the line to the other. The overall cost of this programme is estimated at $1.8 million. In addition to providing an improved, more stable and safer road bed for the heavier and more frequent loadings, the new ballast will enable us to make substantial savings in roadway maintenance. The capital cost of mechanical maintenance equipment is included in the aforementioned cost of $1.8 million.

Contracts have also been let or are in process for

1. seven heavy locomotives,
2. the replacement of the high trestle bridge at Mile 18 by a tunnel and a much shorter bridge,
3. strengthening and, in some cases, rebuilding retaining walls,
4. bridges, numerous trackage improvements, including some new rail,
5. 200 new flat cars,
6. the construction of a new type of container for lead/zinc concentrates,
7. sundry improvements to accommodate heavier loads,
8. a minimum of 30 highway tractor-trailer units with an option to increase to 35.

The depot at Skagway, which dates back to the origin of the old company and is almost in a state of dilapidation, is to be replaced by a modern station which will make things much easier and more comfortable for the staff and tourists. A new garage and repair shop for highway equipment is to be built in an industrial part of Whitehorse.

We are firmly convinced that the most economical outbound route for products of Yukon to the markets of the world is through Skagway and thence directly to world markets or, as to domestic markets, south to Vancouver.
In the circumstances, a sister ship to the "Brown" was a logical development. The lowest bidder on the building of this ship was Canadian Vickers, Montreal. She was launched early in December, will be named "Klondike" and will operate with the "Brown" in a weekly service. She should be ready next July. The capital cost will be in the order of $6,200,000. We do not anticipate that she will be able to get full loads at the start but encouraging new tonnages are developing and we are confident that she will be paying her way very soon.
In all, the cost of this work will be close to $22 million. Nearly all of it is by way of contract. The work is proceeding at a satisfactory rate and, barring accidents, we should be ready to handle the Anvil concentrates by September.



TOURISM

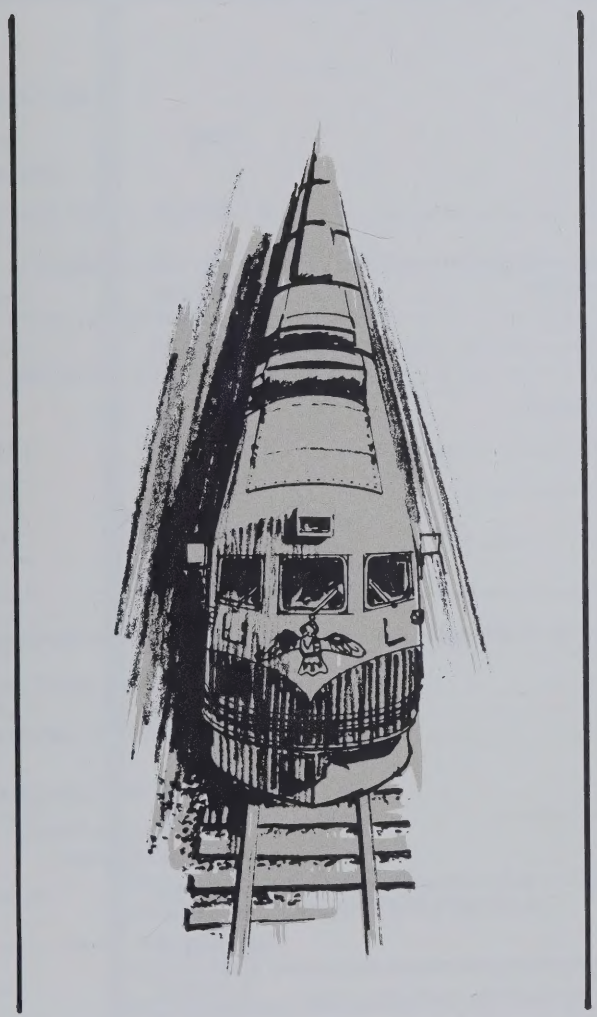
1968 turned out to be our most active year in tourism, with revenues 27% above 1967. Our facilities were strained. In view of this we expect to bring into operation next summer four more new observation cars. A further increase in tourist traffic is to be expected and we anticipate this additional equipment will be adequate.

PETROLEUM BUSINESS

Developments in the Territory have led to a general increase in the demand for petroleum products. We think our proportion of the business offering has not been reduced, notwithstanding that we are in active daily competition with major companies in the petroleum business.

MANAGEMENT AND STAFF

Again it is a great pleasure to be able to record that our staff have functioned in high efficiency and enthusiasm. It is they who really make the White Pass & Yukon Route.



OUTLOOK

A considerable amount of construction work yet remains to be done to bring the Anvil Mine and our own new facilities into being by the prescribed date in September next. Interruptions of various kinds obviously could take place. The weather might cause delays, and untoward developments beyond the possibility of foresight or control might occur.

For our part, we have divided the work up among competent contractors and have made the necessary financial arrangements.

You long-term shareholders of White Pass have waited patiently for a long time for the opportunity to fulfill what you believed to be your destiny as a private enterprise serving and helping to build up a northern community with which the company became associated 70 years ago. You have not been hungry for dividends and have accepted the fact that the turning around of a dilapidated, inefficient and run-down operation into a modern transportation system must involve the ploughing back of most of the earnings over the years. It is our belief, however, the programme now in progress will cover the main capital expenditure needs for the present.

We remain as optimistic as ever about the future of the Yukon Territory and the part we should play in its development. Private enterprise has served the Yukon well to date and is likely to do still more in the future.

On behalf of the Board of Directors

Frank H. Brown

March 19, 1969. President

CONSOLIDATED BALANCE

(with comparative figu

ASSETS

	1968	1967
CURRENT:		
Cash	$ 180,187	$ 110,129
Government of Canada bonds and short-term deposits with bankers — at cost (market value $4,241,553; 1967 — $1,913,300)	4,262,282	1,915,616
Accounts receivable	3,073,798	2,444,706
Inventories — at the lower of cost or net realizable value:		
Petroleum products and tires	1,555,515	1,182,887
Materials and supplies	940,557	831,562
Prepaid expenses	153,349	166,702
Total current assets	10,165,688	6,651,602
SPECIAL 5% REFUNDABLE TAX	80,796	103,756
MORTGAGES AND AGREEMENTS RECEIVABLE	412,625	495,108
FIXED — at cost:		
Rail property and equipment	16,035,382	14,945,608
Ship, freight containers, motor vehicles, buildings, pipeline and other property	19,769,438	10,850,837
	35,804,820	25,796,445
Less accumulated depreciation	8,210,522	7,272,876
	27,594,298	18,523,569
DISCOUNT AND ISSUE EXPENSE OF LONG-TERM DEBT LESS AMOUNTS WRITTEN OFF	128,751	143,972
	$38,382,158	$25,918,007

The accompanying notes are an integral part of the financial statements.

rated under the laws of Canada) AND SUBSIDIARY COMPANIES

IEET, DECEMBER 31, 1968

at December 31, 1967)

LIABILITIES

	1968	
CURRENT:		
Bank loan — secured	$ 1,488,000	
Accounts payable and accrued charges	2,807,675	
Current instalments of long-term debt	120,000	
Income and other taxes payable	522,015	
Total current liabilities	4,937,690	
PROVISION FOR COMPANY PORTION OF INSURANCE COVERAGE	145,000	
LONG-TERM DEBT (note 1)	3,924,100	
DEFERRED INCOME TAXES (note 4)	2,740,788	
SHAREHOLDERS' EQUITY:		
Capital (note 2) —		
Authorized:		
500,000 preferred shares with a par value of $25 each		
2,500,000 common shares without par value		
Issued and fully paid:		
220,000 6¾ % cumulative redeemable preferred shares series A	5,500,000	
1,887,516 common shares (1967 — 1,573,370 shares)	4,749,591	
Surplus resulting from consolidation (note 3)	6,922,538	
Retained earnings	9,462,451	
	26,634,580	
	$38,382,158	

On behalf of the Board:

F. H. BROWN, Director

C. J. ROGERS, Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

FOR YEAR ENDED DECEMBER 31, 1968 (with comparative figures for 1967)

	1968	1967
GROSS EARNINGS FROM OPERATIONS	$19,805,140	$16,107,491
Deduct:		
Cost of sales and operating expenses other than depreciation	14,910,421	12,319,853
Depreciation	1,222,476	1,104,920
Interest on long-term debt and amortization of discount and issue expense	239,705	258,333
	16,372,602	13,683,106
	3,432,538	2,424,385
Taxes on income	1,690,000	1,131,000
NET EARNINGS FROM OPERATIONS	1,742,538	1,293,385
Add:		
Interest income	343,397	117,466
Income taxes thereon	172,000	59,000
	171,397	58,466
EARNINGS BEFORE CAPITAL ITEMS	1,913,935	1,351,851
Capital gains — net	77,149	111,968
Profit on 4½% first debenture stock 1961/76 purchased and transferred to sinking fund	10,369	10,911
NET EARNINGS FOR YEAR	2,001,453	1,474,730
Special items:		
Adjustment to deferred income taxes (note 4)	1,885,000	
Commission and issue expense of share capital ($415,692 less income tax reduction of $71,000)	(344,692)	
NET ADDITION TO RETAINED EARNINGS	3,541,761	1,474,730
RETAINED EARNINGS, BEGINNING OF YEAR	6,392,569	5,220,969
	9,934,330	6,695,699
Dividends paid	471,879	303,130
RETAINED EARNINGS, END OF YEAR	$ 9,462,451	$ 6,392,569

Salaries, fees and other remuneration of directors during 1968: $80,105

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

1. Long-term debt comprises the following:

 (a) Funded debt:

	4½% First debenture stock 1961/76	5% Convertible debenture stock 1961/76	5½% Unsecured loan stock 1963/78	Total
Authorized	$2,000,000	$1,700,000	$1,500,000	
Issued	$2,000,000	$1,700,000	$1,100,000	
Less:				
Transferred to sinking fund and cancelled	656,700			
Converted to common shares		848,950		
Purchased and held by subsidiaries	390,700	294,550	5,000	
	1,047,400	1,143,500	5,000	
Balance outstanding	$ 952,600	$ 556,500	$1,095,000	$2,604,100

 All conversion rights attached to the 5% Convertible debenture stock 1961/76 expired on September 30, 1961.

(b) First Mortgage Note on ship (repayable over 12 years with interest at 6⅛%) less $120,000 included in current liabilites	1,320,000
	$3,924,100

2. In 1967 shareholders were granted rights to subscribe for shares. The offer expired January 29, 1968 at which time 157,073 shares of no par value were issued for cash amounting to $2,670,241. Subsequently, during 1968 the Company applied for and received supplementary letters patent redesignating the shares of no par value as common shares, subdividing such shares on a 2 for 1 basis and creating 500,000 preferred shares with a par value of $25 each, issuable in series and fixing the number, designation and attributes of 220,000 6¾% cumulative redeemable preferred shares Series A. These 220,000 preferred shares were sold during the year for $5,500,000 cash less a commission to underwriters of $220,000. The series A preferred shares carry the right to receive in 1969 share purchase warrants which entitle the holder upon exercise to purchase (at varying prices) 1 common share for each 2 preferred shares held. 110,000 common shares have been reserved for this purpose. The preferred shares are redeemable by the Company at varying prices from $26.69 prior to December 1, 1972 to $25.25 after December 1, 1980.

3. The surplus resulting from consolidation is as follows:

	1968	1967
Excess of net book value of subsidiaries at the date of acquisition over cost to the parent	$6,778,603	$6.778.603
Excess of par value over purchase price of the parent company's debt securities purchased and held by subsidiaries	143,935	136.391
	$6,922,538	$6.914.994

4. Through the application of special provisions of the Income Tax Act relating to the purchase of a new ship, $1,885,000 of the total deferred taxes provided in prior years are no longer required.

5. The Company is presently engaged in an expansion program involving new terminal facilities, a new ship, additional locomotives, railway cars, trucks, containers and improvements to the rail roadway at an estimated total cost of $21,985,000 of which $9,165,000 has been expended to December 31, 1968.
 The program is being financed out of the company's working capital, a term bank loan and 15-year first ship mortgage notes of $3,500,000 carrying interest at 8½%, repayable in annual instalments from 1970 to 1984.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR YEAR ENDED DECEMBER 31, 1968 (with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS:		
Earnings before capital items	$ 1,913,935	$ 1,351,851
Charges to earnings not resulting in an outlay of funds —		
Depreciation	1,222,476	1,104,920
Amortization of discount and issue expense	12,260	12,567
Deferred income taxes	1,437,000	126,500
Total funds provided from operations	4,585,671	2,595,838
Special 5% refundable tax refunded	22,960	
Repayment of mortgages and agreements receivable	148,570	97,487
Proceeds from disposal of fixed assets	192,788	274,645
Proceeds from issue of preferred shares	5,500,000	
Proceeds from issue of common shares resulting from exercise of rights granted to shareholders	2,670,241	
Proceeds from issue of common shares under share option agreements		216,864
	13,120,230	3,184,834
APPLICATION OF FUNDS:		
Additions to fixed assets	10,407,014	1,326,154
Commission and issue expense of share capital	344,692	
Reduction of long-term debt	236,676	357,585
Dividends paid	471,879	303,130
Advances on mortgages and agreements receivable	66,088	192,363
Special 5% refundable tax paid		28,227
Other	829	40,800
	11,527,178	2,248,259
INCREASE IN WORKING CAPITAL	1,593,052	936,575
WORKING CAPITAL, BEGINNING OF YEAR	3,634,946	2,698,371
WORKING CAPITAL, END OF YEAR	$ 5,227,998	$ 3,634,946

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
The White Pass and Yukon Corporation Limited:

We have examined the consolidated balance sheet of The White Pass and Yukon Corporation Limited and subsidiary companies as at December 31, 1968 and the statements of consolidated earnings and retained earnings and consolidated source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company and its subsidiaries as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, Canada.
March 10, 1969.

CLARKSON, GORDON & CO.,
Chartered Accountants.

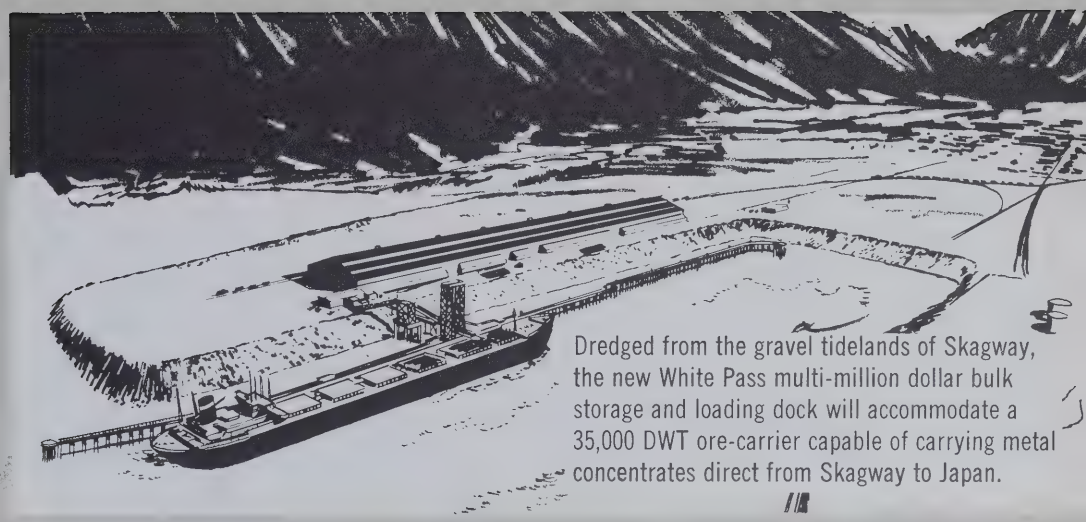
THE SHAPE OF THINGS TO COME

The current construction, development and upgrading of White Pass transportation facilities will be completed and in operation by the fall of 1969. The illustrations on the following six-page foldout reveal the extent and variety of present activities, which include upgrading of some facilities and replacement of others, plus the development and construction of important new transportation equipment and apparatus all designed to fully support the Yukon's growing mining industry.





Trains carrying one thousa
will arrive daily at the Ska
gantry will lift the contain
dump them in the 150′ by
Concentrates will be move
discharging 1500 tons per



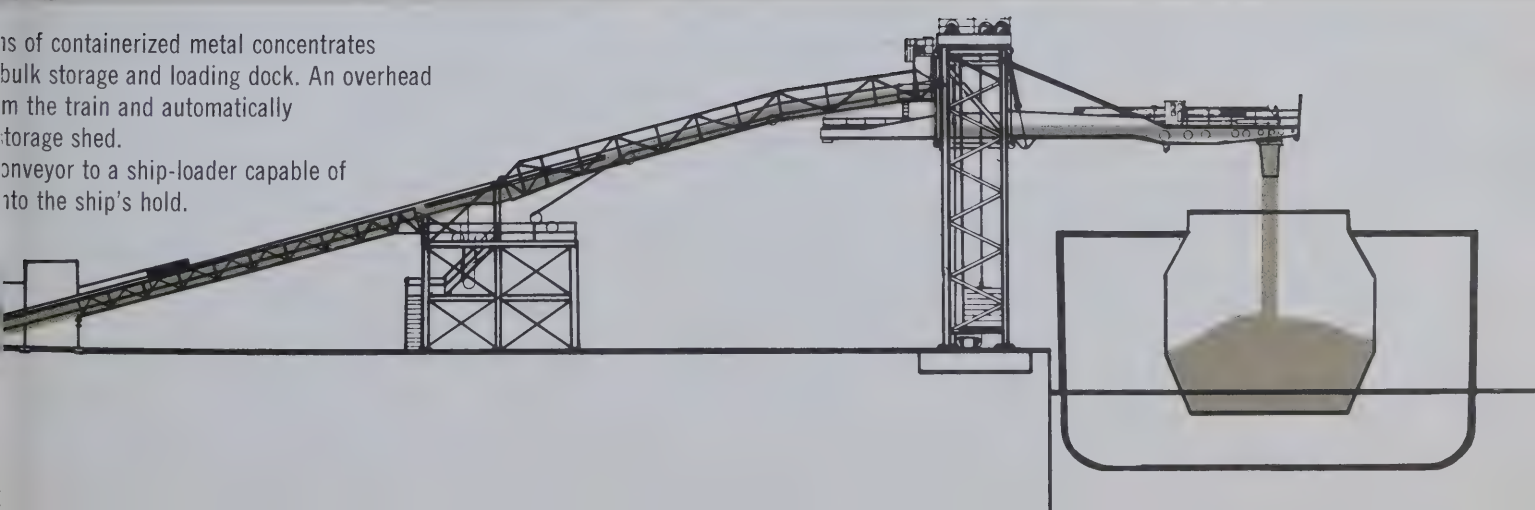
Dredged from the gravel tidelands of Skagway, the new White Pass multi-million dollar bulk storage and loading dock will accommodate a 35,000 DWT ore-carrier capable of carrying metal concentrates direct from Skagway to Japan.





In the late spring of 1969 the historic old Skagway Railway Building will pass into history. Built in 1900, it will be replaced by a modern structure containing the railway's administrative offices, ticket office, and passenger waiting room where the decor of the Klondike Gold Rush days will be retained.

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bulk storage and loading dock. An overhead
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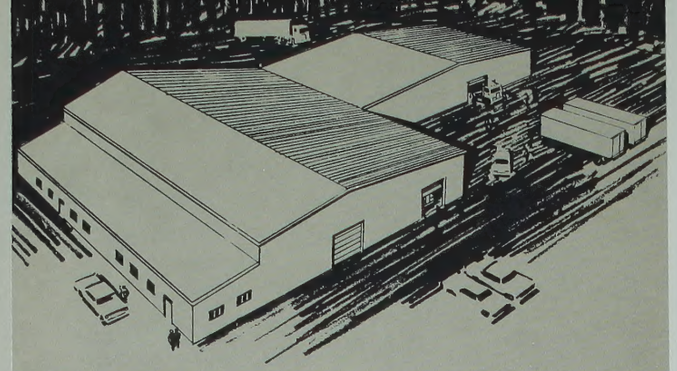


In addition to renewing four railway bridges, strengthening retaining walls and, in places, relocating the right-of-way, crews are engaged in reballasting the railway track throughout its 110.7 mile length. Heavier locomotives and larger and more frequent trains call for an upgraded track capable of providing improved weight distribution through wheels to track and ties to railway subgrade. In addition to strengthening the road bed, the ballast program will improve drainage and reduce track maintenance costs.

The ballasting machinery permits work to proceed at approximately one mile per day without interrupting scheduled freight and tourist passenger trains.







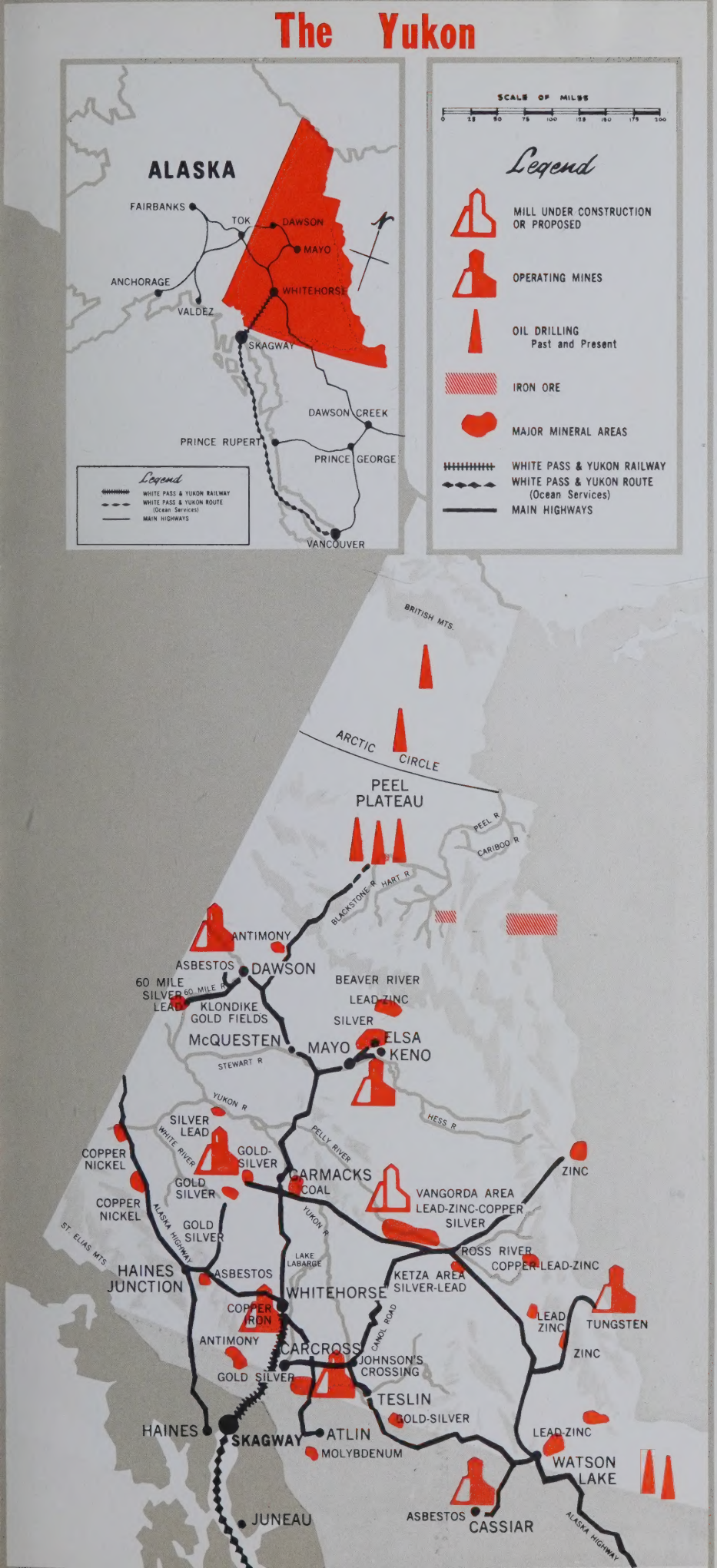
A completely new highway transportation system, based at Whitehorse, will be ready by early fall to transport lead and zinc concentrates from Anvil mine, near Ross River, to railhead at Whitehorse. To support this, and other highway operations, a new garage and maintenance center is now under construction at Whitehorse. It will operate around the clock.

Tractor-trailers with a gross vehicle weight of 95,000 lbs. will haul lead and zinc concentrates, industrial and domestic supplies between Whitehorse and Anvil. The development of a new eliptical container, weighing just over a ton, and capable of carrying thirty tons of metal concentrate, is a major pivot point of the new operation.



To handle increased mining traffic 7 new high-powered locomotives and 200 flat cars are being added to the White Pass railway equipment roster. Pulling one thousand tons of metal concentrates the trains will travel through a new 670 ft. tunnel designed to eliminate the high steel bridge which was constructed in 1900, plus improve the grade and curvature of the railway. The new 230′ girder bridge carries the line from the mouth of the new tunnel and across the gulch, where it links up with the original grade.





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